

Kay County
Justice Facilities Authority
Newkirk, Oklahoma

Financial Statements

June 30, 2013 and 2012
(With Independent Auditors' Report Thereon)

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

FINANCIAL STATEMENTS

Table of Contents

	<u>Page</u>
<u>Independent Auditors' Report</u>	1
<u>Basic Financial Statements:</u>	
<i>Government-Wide Financial Statements:</i>	
Statements of Net Position.....	4
Statements of Activities	6
<i>Fund Financial Statements:</i>	
Balance Sheets—Governmental Funds.....	8
Reconciliation of Balance Sheets—Governmental Funds to Statements of Net Position.....	10
Statements of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds.....	11
Reconciliation of Statements of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds to Statements of Activities	13
Statements of Fiduciary Net Position.....	14
Notes to Financial Statements.....	15
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in <u>Accordance with Government Auditing Standards</u>	34



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kay County Justice Facilities Authority
Newkirk, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kay County Justice Facilities Authority (the "Authority"), a component unit of Kay County, Oklahoma, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority, as of June 30, 2013 and 2012, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matters

Authority-Only Financial Statements

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of Kay County, Oklahoma, that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the Kay County, Oklahoma, as of June 30, 2013 and 2012, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States. Our opinions are not modified with respect to this matter.

Change in Accounting Principles

As discussed in Notes 1 and 2 to the financial statements, in 2013 the Authority adopted new accounting guidance, Statements No. 63 and No. 65 of the Governmental Accounting Standards Board (GASB), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and *Items Previously Reported as Assets and Liabilities*, respectively. Net position as of July 1, 2011, and June 30, 2012, and changes in net position for the year ended June 30, 2012, were restated due to the implementation of GASB No. 65. Our opinions are not modified with respect to this matter.

Restricted Assets

As discussed in Note 3, previous financial statements of the Authority have presented cash and receivables for the limited issue sales tax as restricted for debt service. In 2013 an attorney's opinion was obtained by the Authority and only cash on deposit with the trustee to service indebtedness is presently reflected as restricted. Prior year's financial statements were not restated. Our opinions are not modified with respect to this matter.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Matters

Required Supplementary Information

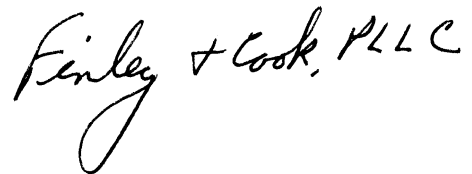
Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Other Information

The Authority is not required by statute to prepare a line-item budget. Accordingly, a schedule of revenues, expenditures, and changes in fund balance—budget to actual is not presented herein.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Finley + Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma
December 27, 2013

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

STATEMENTS OF NET POSITION

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
	<u>Governmental Activities</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,219,178	491,740
Receivable from Kay County	679,594	340,894
Advances to Kay County	1,578,193	1,682,434
Prepaid expenses	40,540	40,540
Total current assets	<u>4,517,505</u>	<u>2,555,608</u>
Noncurrent assets:		
Restricted for debt service:		
Cash and cash equivalents	749,323	1,608,663
Receivable from Kay County	-	340,191
Total noncurrent assets, as restated	<u>749,323</u>	<u>1,948,854</u>
Capital assets:		
Property and equipment, net	<u>17,661,944</u>	<u>18,127,743</u>
Total capital assets	<u>17,661,944</u>	<u>18,127,743</u>
Total assets, as restated	<u>\$ 22,928,772</u>	<u>22,632,205</u>

(Continued)

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

STATEMENTS OF NET POSITION, CONTINUED

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
	<u>Governmental Activities</u>	
Liabilities and Net Position		
Current liabilities:		
Accounts payable and other accruals	\$ -	96,426
Accrued interest payable	373,041	388,790
Current portion of long-term debt	760,886	728,302
Total current liabilities	<u>1,133,927</u>	<u>1,213,518</u>
Noncurrent liabilities:		
Notes payable	<u>16,489,611</u>	<u>17,250,496</u>
Total liabilities	<u>17,623,538</u>	<u>18,464,014</u>
Net position:		
Net investment in capital assets	411,447	148,945
Restricted	376,282	1,560,064
Unrestricted, as restated	<u>4,517,505</u>	<u>2,459,182</u>
Total net position, as restated	<u>5,305,234</u>	<u>4,168,191</u>
 Total liabilities and net position, as restated	 <u>\$ 22,928,772</u>	 <u>22,632,205</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2013

		REVENUE			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues</u>
Governmental activities:					
Public safety	\$ (3,017,481)	562,236	-	62	(2,455,183)
Interest expense	<u>(754,002)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(754,002)</u>
Total governmental activities	<u>\$ (3,771,483)</u>	<u>562,236</u>	<u>-</u>	<u>62</u>	<u>(3,209,185)</u>
General revenues:					
Contractual revenues					
from Kay County—					
dedicated sales taxes					4,341,709
Interest					<u>4,519</u>
Total general revenues					<u>4,346,228</u>
Change in net position					1,137,043
Net position, beginning of year, as restated					<u>4,168,191</u>
Net position, end of year					<u>\$ 5,305,234</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

STATEMENTS OF ACTIVITIES, CONTINUED

Year Ended June 30, 2012

		REVENUE			
		Charges for	Capital	Operating	Net
	<u>Expenses</u>	<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>(Expenses)</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Revenues</u>
Governmental activities:					
Public safety, as restated	\$ (3,302,717)	654,298	-	112	(2,648,307)
Interest expense	<u>(785,200)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(785,200)</u>
Total governmental activities, as restated	<u>\$ (4,087,917)</u>	<u>654,298</u>	<u>-</u>	<u>112</u>	<u>(3,433,507)</u>
General revenues:					
Contractual revenues					
from Kay County—					
dedicated sales taxes					3,899,428
Interest					<u>8,230</u>
Total general revenues					<u>3,907,658</u>
Change in net position, as restated					474,151
Net position, beginning of year, as restated					<u>3,694,040</u>
Net position, end of year, as restated					<u>\$ 4,168,191</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

BALANCE SHEETS—GOVERNMENTAL FUNDS

June 30, 2013

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Governmental Total</u>
Assets				
Cash and cash equivalents	\$ 2,219,178	-	749,323	2,968,501
Receivable from Kay County	679,594	-	-	679,594
Advances to Kay County	<u>1,578,193</u>	<u>-</u>	<u>-</u>	<u>1,578,193</u>
Total assets	<u>\$ 4,476,965</u>	<u>-</u>	<u>749,323</u>	<u>5,226,288</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	<u>\$ -</u>	<u>-</u>	<u>373,041</u>	<u>373,041</u>
Fund balances:				
Restricted	-	-	376,282	376,282
Unassigned	<u>4,476,965</u>	<u>-</u>	<u>-</u>	<u>4,476,965</u>
Total fund balances	<u>4,476,965</u>	<u>-</u>	<u>376,282</u>	<u>4,853,247</u>
Total liabilities and fund balances	<u>\$ 4,476,965</u>	<u>-</u>	<u>749,323</u>	<u>5,226,288</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

BALANCE SHEETS—GOVERNMENTAL FUNDS, CONTINUED

June 30, 2012

	General <u>Fund</u>	Capital Projects <u>Fund</u>	Debt Service <u>Fund</u>	Governmental <u>Total</u>
Assets				
Cash and cash equivalents	\$ 491,740	-	1,608,663	2,100,403
Receivable from Kay County	340,894	-	340,191	681,085
Advances to Kay County	<u>1,682,434</u>	<u>-</u>	<u>-</u>	<u>1,682,434</u>
Total assets	<u>\$ 2,515,068</u>	<u>-</u>	<u>1,948,854</u>	<u>4,463,922</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	<u>\$ 96,426</u>	<u>-</u>	<u>388,790</u>	<u>485,216</u>
Fund balances:				
Restricted	-	-	1,560,064	1,560,064
Unassigned	<u>2,418,642</u>	<u>-</u>	<u>-</u>	<u>2,418,642</u>
Total fund balances	<u>2,418,642</u>	<u>-</u>	<u>1,560,064</u>	<u>3,978,706</u>
Total liabilities and fund balances	<u>\$ 2,515,068</u>	<u>-</u>	<u>1,948,854</u>	<u>4,463,922</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

**RECONCILIATION OF BALANCE SHEETS—GOVERNMENTAL FUNDS TO
STATEMENTS OF NET POSITION**

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
Total fund balances	\$ 4,853,247	3,978,706
Amounts reported in the statements of net position are different because:		
Prepaid expenses reported in the statements of net position are not current financial resources and therefore are not reported in the fund	40,540	40,540
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund:		
Property and equipment, net	17,661,944	18,127,743
Certain liabilities are not due and payable in the current period and therefore are not reported in the fund:		
Long-term debt	<u>(17,250,497)</u>	<u>(17,978,798)</u>
Net position, per statements of net position, as restated	<u>\$ 5,305,234</u>	<u>4,168,191</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

**STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES—GOVERNMENTAL FUNDS**

Year Ended June 30, 2013

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Contractual revenues from				
Kay County—dedicated sales taxes	\$ 4,341,709	-	-	4,341,709
Public safety	562,236	-	-	562,236
Interest	4,519	-	62	4,581
Total revenues	<u>4,908,464</u>	<u>-</u>	<u>62</u>	<u>4,908,526</u>
Expenditures:				
Current operating:				
Public safety	2,548,861	-	-	2,548,861
Trust fees	-	-	2,821	2,821
Debt service:				
Principal	-	-	728,301	728,301
Interest	-	-	754,002	754,002
Total expenditures	<u>2,548,861</u>	<u>-</u>	<u>1,485,124</u>	<u>4,033,985</u>
Excess (deficit) of revenues over expenditures	<u>2,359,603</u>	<u>-</u>	<u>(1,485,062)</u>	<u>874,541</u>
Transfers:				
To debt service	(1,501,131)	-	1,501,131	-
From debt service	<u>1,199,851</u>	<u>-</u>	<u>(1,199,851)</u>	<u>-</u>
Total transfers	<u>(301,280)</u>	<u>-</u>	<u>301,280</u>	<u>-</u>
Net changes in fund balances	2,058,323	-	(1,183,782)	874,541
Fund balances, beginning of year	<u>2,418,642</u>	<u>-</u>	<u>1,560,064</u>	<u>3,978,706</u>
Fund balances, end of year	<u>\$ 4,476,965</u>	<u>-</u>	<u>376,282</u>	<u>4,853,247</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

**STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES—GOVERNMENTAL FUNDS, CONTINUED**

Year Ended June 30, 2012

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Contractual revenues from				
Kay County—dedicated sales taxes	\$ 1,949,714	-	1,949,714	3,899,428
Public safety	654,298	-	-	654,298
Interest	8,230	-	112	8,342
Total revenues	<u>2,612,242</u>	<u>-</u>	<u>1,949,826</u>	<u>4,562,068</u>
Expenditures:				
Current operating:				
Public safety	2,820,492	-	-	2,820,492
Trust fees	-	-	2,800	2,800
Debt service:				
Principal	-	-	697,114	697,114
Interest	-	-	785,200	785,200
Total expenditures	<u>2,820,492</u>	<u>-</u>	<u>1,485,114</u>	<u>4,305,606</u>
(Deficiency) excess of revenues over expenditures	<u>(208,250)</u>	<u>-</u>	<u>464,712</u>	<u>256,462</u>
Transfers	<u>221,206</u>	<u>(221,206)</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	12,956	(221,206)	464,712	256,462
Fund balances, beginning of year	<u>2,405,686</u>	<u>221,206</u>	<u>1,095,352</u>	<u>3,722,244</u>
Fund balances, end of year	<u>\$ 2,418,642</u>	<u>-</u>	<u>1,560,064</u>	<u>3,978,706</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

**RECONCILIATION OF STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES—GOVERNMENTAL FUNDS TO
STATEMENTS OF ACTIVITIES**

<i>Years Ended June 30,</i>	<i>2013</i>	<i>2012</i>
Net changes in fund balances—governmental funds	\$ 874,541	256,462
Amounts reported for governmental activities in the statements of activities are different because:		
Governmental funds report capital outlays as expenditures:		
Capital assets acquired and capitalized	81,430	41,697
Advances from debt agreements, principal repayments, and changes in certain other assets are not reflected as revenues and expenditures in the statements of activities:		
Depreciation expense	(547,229)	(537,853)
Principal payments on Series 2008 and Series 2009 notes payable	728,301	697,114
Prepaid expenses	<u>-</u>	<u>16,731</u>
Change in net position, per statements of activities, as restated	<u>\$ 1,137,043</u>	<u>474,151</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

STATEMENTS OF FIDUCIARY NET POSITION

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
	Agency Fund Inmate Cash Fund	
Assets		
Cash	\$ 8,076	28,090
Total assets	<u>\$ 8,076</u>	<u>28,090</u>
Liabilities		
Payable to inmates	\$ 8,076	28,090
Total liabilities	<u>\$ 8,076</u>	<u>28,090</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Kay County Justice Facilities Authority (the “Authority”) is a public trust and an agency of the State of Oklahoma which was created on February 2, 2007, under provisions of Title 60, Oklahoma Statutes 2001, Sections 176 et seq., as amended and supplemented, the Oklahoma Trust Act, and other applicable statutes of the State of Oklahoma. The Trust Indenture named Kay County of Oklahoma (“Kay County”) as the beneficiary of the trust. The purposes of the Authority are set forth in the Trust Indenture.

The Authority is governed by a Board of Trustees, which consists of a member of the Board of County Commissioners, the current sheriff of Kay County or his/her designee, and five residents of Kay County. The five residents are nominated and elected to 3-year terms by the Commissioners. For financial reporting purposes, the Authority is a component unit of Kay County.

The Authority constructed a new detention center and assumed operations of the detention facility on October 22, 2010. Construction and operation of the detention center have been funded through a levy by Kay County of two-thirds of one cent (0.6665) excise (sales) tax. A portion of the sales tax (one-third (0.33325) of one cent) has a limited duration of 20 years from the date of commencement or until principal and interest upon indebtedness incurred (see Note 7) on behalf of Kay County by the Authority is paid in full, whichever occurs earlier. The remaining one third (0.33325) of one cent is to continue until repealed by a majority of the qualified voters of Kay County. The sales tax was approved by a majority of the qualified voters of Kay County on May 13, 2008. The sales tax was implemented on October 1, 2008. Proceeds from the sales tax levy are designated to be used specifically for the acquisition, construction, and equipping of a new detention facility; existing jail renovations and operations of the previous detention facility (operations were discontinued during the fiscal year 2011); and operating and maintenance of the new detention facility, Kay County Detention Facility (control and operations assumed on October 22, 2010).

See Independent Auditors’ Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Organization, Continued

To facilitate the transfer of the assessed sales tax, the Authority and Kay County have entered into the Sales Tax Agreement, which provides for Kay County to collect and transfer monthly the sales taxes collected to the Authority. Contractual revenues from Kay County—dedicated sales taxes represent sales taxes that Kay County receives from the Oklahoma Tax Commission (OTC) that are transferred to the Authority.

In addition to the Sales Tax Agreement, the Authority entered into a Facilities Use and Operations Agreement that states Kay County shall budget funds sufficient in amount for all years that the Series 2008 and Series 2009 notes payable and the Facilities Use and Operations Agreement remain outstanding, consistent with its existing practices, to cover a portion of the costs of maintenance and operation of the detention facility.

Reporting Entity

These financial statements include only the activities of the Authority and not those of Kay County. The Authority's financial statements should be included in the financial statements of Kay County, as the Authority is a component unit of Kay County for financial reporting purposes. The Authority has no component units of its own.

Basis of Presentation

The Authority complies with accounting principles generally accepted in the United States. Accounting principles generally accepted in the United States include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this note.

KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Basis of Presentation, Continued

Government-Wide Financial Statements

The statements of net position and the statements of activities display information about the Authority as a whole. The Authority's activities are all governmental in nature and generally are financed primarily through sales taxes. The Authority has no business-type activities as defined by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (GASB 34). The statements of net position reflect the following types of net position:

Invested in capital assets, net of related debt—Represents the net investment in capital assets less debt (reduced by cash held for construction activities) associated with the capital assets. The June 30 balance was determined as follows:

	<u>2013</u>	<u>2012</u>
Total capital assets	\$ 17,661,944	18,127,743
Long-term debt	<u>(17,250,497)</u>	<u>(17,978,798)</u>
	<u>\$ 411,447</u>	<u>148,945</u>

Restricted—Represents net position which has been restricted for debt service. The June 30 balance was determined as follows:

	<u>2013</u>	<u>2012</u>
Cash restricted for debt service	\$ 749,323	1,608,663
Receivable from Kay County, restricted for debt service	-	340,191
Accrued interest payable	<u>(373,041)</u>	<u>(388,790)</u>
	<u>\$ 376,282</u>	<u>1,560,064</u>

Unrestricted—Represents the remaining net position.

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Presentation, Continued

Fund Financial Statements

Fund financial statements are normally organized into funds, each of which is considered to be a separate accounting entity. A fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses.

For the financial statement presentation, the Authority presently has three major funds:

- General fund
- Capital projects fund
- Debt service fund

Descriptions of the major funds are as follows:

General Fund—Accounts for general operations of the Authority, which primarily consists of public safety. Revenues of the general fund consist of half of the dedicated sales taxes received by Kay County from the OTC that are transferred to the Authority.

Capital Projects Fund—Accounts for the activity associated with the construction of the detention facility. Monies were originally received through the issuance of the Series 2008 and Series 2009 notes payable.

Debt Service Fund—Accounts for the activity associated with the issuance of the Series 2008 and Series 2009 notes payable, specifically repayment of principal and interest. For the year ended June 30, 2012, revenues of the debt service fund consisted of half of the dedicated sales taxes received by Kay County from the OTC. In 2013, all sales tax revenues are reflected in the general fund with transfers made to the debt service fund for debt service.

In addition to the major funds listed above, the Authority has one fiduciary fund assumed during fiscal year 2011 which is classified as an agency fund. The agency fund is used to account for monies held by the Authority for the benefit of inmates. The monies are typically used by the inmates for phone calls and to purchase food and miscellaneous toiletries. The balance of the agency fund for monies held for the benefit of inmates was approximately \$8,000 and \$28,000 as of June 30, 2013 and 2012, respectively.

The Authority has only governmental-type funds with no proprietary funds.

See Independent Auditors' Report.

KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Basis of Presentation, Continued

Fund Financial Statements, Continued

It is the Authority's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Governmental fund equity is classified as fund balance. Fund balance, as it applies to the Authority and as required by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is classified as restricted and unassigned. These classifications are defined as:

- a. Restricted fund balance—consists of fund balances with constraints placed on the use of resources that are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

The Authority had identified unexpended sales tax revenue that is required by enabling legislation to be used for debt service payments as restricted fund balance. During 2013, as discussed in Note 3, the composition of restricted assets was limited to cash held by the trustee for debt service.

- b. Unassigned fund balance—is the residual classification for the general fund only and consists of fund balances that have not been classified as restricted fund balance.

Measurement Focus and Basis of Accounting

Measurement Focus

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded, regardless of the measurement focus applied.

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Measurement Focus and Basis of Accounting, Continued

Measurement Focus, Continued

On the government-wide financial statements, the Authority's activities are presented using the "economic resources" measurement focus as defined below:

The statements of net position and the statements of activities utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of changes in net position and financial positions. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

In the fund financial statements, the "current financial resources" measurement focus is used as defined below:

The governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on the balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. The funds use fund balances as the measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide statements of net position and statements of activities, the Authority's activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets are used.

In the fund financial statements, the governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for principal and interest which are reported when due.

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Annual Budget-to-Actual Comparison

The Authority is not legally required to prepare an annual budget. Therefore, an annual budget-to-actual comparison as required by GASB 34 is not presented.

Concentrations

The Authority relies on the transfer of dedicated sales taxes from Kay County to meet the interest and principal payments on the outstanding notes payable. If the dedicated sales taxes were insufficient, then the Authority may be unable to make the required payments on the outstanding notes payable.

Recent Accounting Pronouncements

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* (GASB 61). GASB 61 modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that were previously required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also needs to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, GASB 61 clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

GASB 61 amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the “substantively the same governing body” criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility for the activities of the component unit.

The Authority adopted GASB 61 on July 1, 2012, which did not have a significant impact on the Authority’s financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The objective of GASB 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The pronouncement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of this statement were effective for financial statements for periods beginning after December 15, 2011. The Authority adopted GASB 63 effective July 1, 2012. The adoption of the statement required the Authority to adopt the term “net position” as required. In addition, as required by GASB 63, the Authority determined as of June 30, 2013 and 2012, there were no items of deferred inflows or outflows of resources, as presently defined, to be reported.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Authority adopted GASB 65 as of July 1, 2012, and retrospectively applied it for the year beginning July 1, 2012, which resulted in the Authority writing off debt issuance costs and restating prior period financial positions and operating results as discussed in Note 2.

See Independent Auditors’ Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This statement is effective for financial statements for periods beginning after June 15, 2014. The Authority has not determined the effects, if any, of implementing GASB 68.

Date of Management's Evaluation of Subsequent Events

Management has evaluated subsequent events through December 27, 2013, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

As discussed in Note 1, the Authority adopted GASB 65, as of July 1, 2012, which was retrospectively applied causing a restatement of net position as of July 1, 2011, and June 30, 2012, in the accompanying statements of net position and a restatement in operating expenses and changes in net position in the accompanying statement of activities for the year ended June 30, 2012, as follows:

	<u>Total Net Position</u>					
As previously reported as of July 1, 2011	\$	4,141,999				
Write-off of debt issuance costs, net		<u>(447,959)</u>				
As restated as of July 1, 2011	\$	<u>3,694,040</u>				

	<u>Debt Issuance Costs, Net</u>	<u>Total Assets</u>	<u>Unrestricted Net Position</u>	<u>Total Net Position</u>	Governmental Activities: <u>Public Safety Expenses</u>	<u>Changes in Net Position</u>
As previously reported as of June 30, 2012	\$ 423,072	23,055,277	2,882,254	4,591,263	3,327,603	449,265
Write-off of debt issuance costs, net	(423,072)	(423,072)	(423,072)	(423,072)	-	-
Amortization of debt issuance costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,886)</u>	<u>24,886</u>
As restated as of June 30, 2012	<u>\$ -</u>	<u>22,632,205</u>	<u>2,459,182</u>	<u>4,168,191</u>	<u>3,302,717</u>	<u>474,151</u>

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH AND CASH EQUIVALENTS

As of June 30, 2013 and 2012, \$749,323 and \$1,608,663, respectively, of cash and cash equivalents was restricted for debt service.

Restriction Clarification

In 2012 and prior years, restricted cash not only included the monies held at Bank of Oklahoma, the Trustee, but also unspent cash which was attributable to half of the sales tax monies received from the Oklahoma Tax Commission on behalf of Kay County. The monies were considered restricted as a portion of the sales tax monies received has a limited life not to exceed 20 years or the life of the outstanding debt whichever comes first. In December 2013, the Authority received an attorney's opinion which clarified the restrictions.

Prior year amounts were not restated and a transfer was shown from the debt service fund to the general fund to reflect the previous reported amounts as unrestricted.

Restricted cash as of June 30 was determined as follows:

	<u>2013</u>	<u>2012</u>
<u>Debt service:</u>		
Monies held at Bank of Oklahoma in		
debt service accounts (principal and interest, etc.)	\$ 749,323	749,007
Portion of sales taxes received (one-third (0.33325)		
of one cent) which has not been transferred to		
Bank of Oklahoma	-	859,656
	<u>\$ 749,323</u>	<u>1,608,663</u>

The majority of the Authority's cash is in collateralized interest-bearing deposit accounts. The accounts have variable interest rates ranging from approximately 0.01% to 0.15% as of June 30, 2013, and are collateralized with pledged securities.

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH AND CASH EQUIVALENTS, CONTINUED

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2013 and 2012, the Authority's bank balances of \$2,968,501 and \$2,100,403, respectively, were exposed to custodial credit risk of \$2,468,501 and \$1,600,403, respectively (after FDIC insurance of \$250,000 per bank account). The custodial credit risk by bank as of June 30 is as follows:

	<u>2013</u>	<u>2012</u>
Uninsured and collateralized with securities held by the pledging bank's safekeeping agent but not in the Authority's name:		
Bank of Oklahoma	\$ 499,323	499,007
Eastman National Bank	<u>1,969,178</u>	<u>1,101,396</u>
	<u>\$ 2,468,501</u>	<u>1,600,403</u>

(4) RECEIVABLE FROM KAY COUNTY

As of June 30, 2013 and 2012, \$679,594 and \$681,085, respectively, was receivable from Kay County. The receivable primarily consists of 1) amounts that the OTC has collected from vendors that have not been remitted to Kay County and 2) amounts that Kay County has collected from the OTC that have not been transferred to the Authority. The receivable amounts as of June 30 were as follows:

	<u>2013</u>	<u>2012</u>
Portion of sales taxes collected by the OTC due to Kay County that have not been transferred to the Authority	\$ 351,894	364,977
Portion of sales taxes received by Kay County from the OTC which have not been transferred to the Authority	327,700	315,405
Interest receivable from Kay County	<u>-</u>	<u>703</u>
	<u>\$ 679,594</u>	<u>681,085</u>

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) ADVANCES TO KAY COUNTY

During the years ended June 30, 2013 and 2012, the Authority advanced monies to Kay County to assist in the payment of salaries and operations of the detention center. As of June 30, 2013 and 2012, \$1,578,193 and \$1,682,434, respectively, of the advances had not been expended by Kay County.

(6) CAPITAL ASSETS

Capital asset activity for the years ended June 30 was as follows:

	2013			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets:				
Land	\$ 18,794	-	-	18,794
Building	18,496,923	-	-	18,496,923
Equipment	218,309	58,598	-	276,907
Furniture and fixtures	169,115	568	-	169,683
Vehicles	112,840	19,803	-	132,643
Office equipment	85,674	2,461	-	88,135
Total capital assets	<u>19,101,655</u>	<u>81,430</u>	<u>-</u>	<u>19,183,085</u>
Less accumulated depreciation	<u>(973,912)</u>	<u>(547,229)</u>	<u>-</u>	<u>(1,521,141)</u>
	<u>\$ 18,127,743</u>	<u>(465,799)</u>	<u>-</u>	<u>17,661,944</u>

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) CAPITAL ASSETS, CONTINUED

	2012			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets:				
Land	\$ 18,794	-	-	18,794
Building	18,494,599	2,324	-	18,496,923
Equipment	178,936	39,373	-	218,309
Furniture and fixtures	169,115	-	-	169,115
Vehicles	112,840	-	-	112,840
Office equipment	85,674	-	-	85,674
Total capital assets	<u>19,059,958</u>	<u>41,697</u>	<u>-</u>	<u>19,101,655</u>
Less accumulated depreciation	<u>(436,059)</u>	<u>(537,853)</u>	<u>-</u>	<u>(973,912)</u>
	<u>\$ 18,623,899</u>	<u>(496,156)</u>	<u>-</u>	<u>18,127,743</u>

Capital assets which have an expected useful life of more than 1 year are recorded at cost when purchased. Depreciation expense is calculated on a straight-line basis as follows:

Building	40 years
Equipment	3–15 years
Furniture and fixtures	7–20 years
Vehicles	5 years

The Authority recognized \$547,229 and \$537,853 of depreciation expense in public safety governmental activities for the years ended June 30, 2013 and 2012, respectively.

(7) NOTES PAYABLE

Notes payable of the Authority as of June 30, 2013 and 2012, consisted of two notes payable to a financial institution.

Note 1

The first note (the Series 2008 note payable) was issued on September 11, 2008. The balance of the note payable was \$8,629,943 and \$8,995,132 as of June 30, 2013 and 2012, respectively. The Series 2008 note payable bears interest at 4.30% and matures on January 1, 2029. Principal and interest are due semiannually.

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) NOTES PAYABLE, CONTINUED

Note 2

The second note (the Series 2009 note payable) was issued on January 15, 2009. The balance of the note payable was \$8,620,554 and \$8,983,666 as of June 30, 2013 and 2012, respectively. The Series 2009 note payable bears interest at 4.35% and matures on January 1, 2029. Principal and interest are due semiannually.

Although principal and interest payments are due semiannually, monies are deposited monthly with Bank of Oklahoma, the trustee bank.

The Authority has assigned a security interest in the Sales Tax Agreement and sales tax revenues derived from the agreement as collected for the debt. In addition, collateral also consists of all funds and accounts created for the Sales Tax Agreement and the Facilities Use and Operations Agreement between the Authority and Kay County.

The following is a schedule of the future maturities of the Series 2008 note payable as of June 30, 2013:

<u>Applicable Fiscal Year Ended June 30,</u>	<u>Principal or Face Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
2014	\$ 381,434	367,032	748,466
2015	398,401	350,450	748,851
2016	416,124	333,130	749,254
2017	434,635	315,040	749,675
2018	453,969	296,145	750,114
2019–2023	2,591,336	1,166,540	3,757,876
2024–2028	3,221,312	550,882	3,772,194
2029	<u>732,732</u>	<u>23,716</u>	<u>756,448</u>
	<u>\$ 8,629,943</u>	<u>3,402,935</u>	<u>12,032,878</u>

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) NOTES PAYABLE, CONTINUED

The following is a schedule of the future maturities of the Series 2009 note payable as of June 30, 2013:

<u>Applicable Fiscal Year Ended June 30,</u>	<u>Principal or Face Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
2014	\$ 379,452	370,913	750,365
2015	396,526	354,223	750,749
2016	414,367	336,782	751,149
2017	433,011	318,557	751,568
2018	452,495	299,511	752,006
2019–2023	2,586,827	1,180,493	3,767,320
2024–2028	3,223,581	558,049	3,781,630
2029	<u>734,295</u>	<u>24,044</u>	<u>758,339</u>
	<u>\$ 8,620,554</u>	<u>3,442,572</u>	<u>12,063,126</u>

The following is a combined schedule of the future maturities of the Series 2008 and Series 2009 notes payable as of June 30, 2013:

<u>Applicable Fiscal Year Ended June 30,</u>	<u>Principal or Face Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
2014	\$ 760,886	737,945	1,498,831
2015	794,927	704,673	1,499,600
2016	830,491	669,912	1,500,403
2017	867,646	633,597	1,501,243
2018	906,464	595,656	1,502,120
2019–2023	5,178,163	2,347,033	7,525,196
2024–2028	6,444,893	1,108,931	7,553,824
2029	<u>1,467,027</u>	<u>47,760</u>	<u>1,514,787</u>
	<u>\$ 17,250,497</u>	<u>6,845,507</u>	<u>24,096,004</u>

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) NOTES PAYABLE, CONTINUED

A summary of changes in the notes payable for the years ended June 30 is as follows:

	2013			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Series 2008	\$ 8,995,132	-	(365,189)	8,629,943
Series 2009	8,983,666	-	(363,112)	8,620,554
	<u>\$ 17,978,798</u>	<u>-</u>	<u>(728,301)</u>	<u>17,250,497</u>
	2012			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Series 2008	\$ 9,344,767	-	(349,635)	8,995,132
Series 2009	9,331,145	-	(347,479)	8,983,666
	<u>\$ 18,675,912</u>	<u>-</u>	<u>(697,114)</u>	<u>17,978,798</u>

The Series 2008 and Series 2009 notes payable have financial and performance covenants. At June 30, 2013, the Authority was in compliance with the required covenants.

(8) PENSION PLAN

Plan Description

During 2011, the Authority began to contribute to the Oklahoma Public Employees Retirement Plan (the "Retirement Plan"), a cost-sharing, multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (the "System"). The Retirement Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the Oklahoma Legislature. Title 74 of the Oklahoma Statutes, Sections 901–943, as amended, assigns the authority for management and operation of the Retirement Plan to the Board of Trustees of the System. The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the Retirement Plan. That annual report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 400, Oklahoma City, Oklahoma 73118 or by calling 1-800-733-9008.

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) PENSION PLAN, CONTINUED

Funding Policy

Retirement Plan members and the Authority are required to contribute at a rate set by statute. The contribution requirements of Retirement Plan members and the Authority are established and may be amended by the Oklahoma Legislature. The contribution rates are as follows:

Fiscal Years 2013 and 2012	
<u>State Employees</u>	<u>The Authority</u>
<u>All Salaries</u>	<u>All Salaries</u>
3.5%	16.5%

The Authority's contribution to the Retirement Plan for the years ended June 30, 2013, 2012, and 2011, was \$155,365, \$174,335, and \$88,295, respectively, and was equal to its required contribution for each year.

(9) TRANSFERS

Transfers for 2013 consist of monies transferred by the general fund to the debt service fund to repay the debt. During 2013 \$1,501,131 was sent to Bank of Oklahoma, the Trustee. The debt agreements require specific monthly amounts to be transferred.

The transfer from debt service to the general fund in the amount of \$1,199,851 is the amount to adjust restricted assets at June 30, 2013, to be equal to the monies held by Bank of Oklahoma, Trustee at June 30, 2013. These monies had not been transferred to Bank of Oklahoma, but as explained in Note 3, had been reflected in prior years as restricted.

(10) RELATED PARTY

Kay County is a related party to the Authority, with financial and operating arrangements as follows:

Sales Tax Agreement—As discussed elsewhere, the Authority and Kay County have entered into the Sales Tax Agreement, which provides for Kay County to collect and transfer monthly the sales taxes collected to the Authority. Transfers of dedicated sales taxes represent sales taxes that Kay County receives from the OTC that are transferred to the Authority.

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(10) RELATED PARTY, CONTINUED

Facilities Use and Operations Agreement—As discussed elsewhere, the Authority entered into the Facilities Use and Operations Agreement that states Kay County shall budget funds sufficient in amount for all years that the Series 2008 and Series 2009 notes payable and the Facilities Use and Operations Agreement remain outstanding, consistent with its existing practices, to cover a portion of the costs of maintenance and operation of the detention facility.

(11) COMMITMENTS AND CONTINGENCIES

Litigation

During 2013, an inmate filed a claim based on an accident that occurred when the inmate was being transported. In the opinion of management, the Authority employee who was transporting the inmate was not primarily responsible for the accident, and management believes any resulting litigation would not have a material effect on the Authority's financial statements.



**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Kay County Justice Facilities Authority
Newkirk, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kay County Justice Facilities Authority (the "Authority"), a component unit of Kay County, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 27, 2013. Our report includes an explanatory paragraph regarding the omission of management's discussion and analysis, an explanatory paragraph stating that the financial statements of the Authority are intended to present the financial position and changes in financial position of only that portion of the governmental activities of Kay County, Oklahoma, attributable to the transactions of the Authority, and an explanatory paragraph stating that the Authority is not required by statute to prepare a line-item budget. In addition, our report includes an explanatory paragraph to emphasize the adoption of Governmental Accounting Standards Board Statements No. 63 and 65 by the Authority and an explanatory paragraph to discuss the components of restricted assets.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(Continued)

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*, CONTINUED**

Internal Control Over Financial Reporting, Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley & Cook, PLLC

Shawnee, Oklahoma
December 27, 2013